



# Committee On Finance

Max Baucus, Ranking Member

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## NEWS RELEASE

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### **Baucus Comments on Passage of the Armed Forces Tax Fairness Act**

"Today we're passing this important bill for the men and women who are serving our country. This bill is for the family of Private First Class Stryder Stoutenburg, a Missoula, Montana native who gave his life for his country in the current conflict in Iraq. And it's for every other service member who has made sacrifices for our country.

I want the men and women in uniform to know that we are behind them. The nurse at the military hospital in Kuwait. The tank driver fighting his way to the front line in Nasiriyah. The pilot doing reconnaissance over Baghdad. We support them every step of the way."

-- Floor Statement Follows --

### **FLOOR STATEMENT OF SENATOR MAX BAUCUS REGARDING THE ARMED FORCES TAX FAIRNESS ACT March 27, 2003**

Mr. President, I rise today in support of the *Armed Forces Tax Fairness Act of 2003*. On February 5, 2003, the Finance Committee favorably reported the bill by unanimous voice vote.

As the conflict in Iraq continues, our thoughts are with the men and women who are leading America's response and serving our country. Whether it be the Marines deployed in Iraq, the National Guard supporting our troops, or the Foreign Service Officers serving in dangerous diplomatic posts.

I think in particular of the many men and women in Montana. These men and women have been called to service to defend our nation. In fact, on September the 11<sup>th</sup> of 2002, the members of the 120<sup>th</sup> Fighter Wing of the Montana Air National Guard were called on to secure the skies of the no-fly zone over Iraq

For these dedicated public servants, we are considering the Armed Forces Tax Fairness Act. This bill will not only correct inequities in the current tax code that our military men and women are subject to, but it will also provide incentives for our dedicated forces to continue their service to America.

These are the men and women who put their lives on the line for our freedom on a daily basis. We need to ensure that the tax laws we pass do not negatively impact them.

It is with these principles in mind that I have moved forward with the introduction of this military tax package and that the Finance Committee favorably reported the bill.

I would now like to describe the provisions included in this critical piece of legislation:

**Death Gratuity Payments.** Why is this provision so important? Under current law, death gratuity benefits are excludable from income only to the extent that they were as of September 9, 1986. In 1986, the death gratuity benefit was \$3,000.

In 1991, the benefit was increased to \$6,000, but the tax code was never adjusted to exclude the additional \$3,000 from income. Because of this oversight, the U.S. government has been taxing families for the death of a family member who died in combat.

Just two weeks ago, one of our soldiers from Montana, Private First Class Stryder Stoutenburg, was killed during a Blackhawk helicopter crash. A native of Missoula, Private First Class Stoutenburg was only 18.

His mother will receive the death benefit payment, but will be taxed on half of it. She has already lost so much. It is unfair to also take away part of the small compensation she is receiving.

**Exclusion of Gain on The Sale of a Principal Residence.** In 1997, Congress passed legislation revising the taxation of capital gains on the sale of a person's principal residence.

The new law provides that up to \$250,000 B or \$500,000 for a married couple B is excluded on the sale of a principal residence if the individual has lived in the house for at least two of the previous five years.

However, when enacted, Congress failed to provide a special rule for military and foreign service personnel who are required to move either within the U.S. or abroad.

Our proposal would permit service personnel and members of the foreign service to suspend the five-year period while away on assignment. That means that those years would not count toward either the two years or the five year periods.

Senators McCain, Graham, and Lincoln proposed a bill in the last session to correct this.

**Exclusion of Amounts Received Under Military Housing Assistance Program.** The Department of Defense provides payments to members of the Armed Services to offset diminution in housing values due to military base realignment or closure.

For example, if a house near a base was worth \$140,000 prior to the base closure and \$100,000 after the base closure, DOD may provide the owner with a payment to offset some, but not all, of the \$40,000 diminution in value. Under current law, those amounts are taxable as compensation.

We should ensure that those men and women losing value in their homes due to a federal government decision are not adversely affected financially.

The proposal would provide that payments for lost value are not includible into income.

**Expand Combat Zone Filing Rules To Include Contingency Operations.** Under current law, military personnel in a combat zone are afforded an extended period for filing tax returns.

However, this does not apply to contingency operations. This proposal would extend the same benefits to military personnel assigned to contingency operations.

It cannot be easy trying to figure out our complicated tax system while you are overseas and protecting our nation's freedom. Those men and women who are sent to uphold democracy and freedom in other countries are confronted with the same filing complications as combat zone personnel.

Contingency operations are just as demanding as combat zone deployment, although not always in the same manner. For example, in our current war on terrorism, this proposal would help members of our Special Forces in the Philippines supporting Operation Enduring Freedom who are just as focused on accomplishing their critical mission as our troops in the Iraqi combat zone.

**Above-The Line -Deduction For Overnight Travel Expenses of National Guard and Reserve Members.** Some reservists who travel one weekend per month and two weeks in the summer for reserve duty incur significant travel and lodging expenses.

For the most part, these expenses are not reimbursed. Under current law, these are deductible as itemized deductions but must exceed 2% of adjusted gross income.

For lower income reservists, this deduction does not provide a benefit, because they do not itemize. For higher income reservists, the 2% floor limits the amount of the benefit of the deductions.

In my home state of Montana, we have approximately 3,500 reservists - 800 of whom travel each month across the state for their training. These 800 reservists pay travel and lodging expenses out of their own pocket.

Montana ranks 48<sup>th</sup> in the nation for per capita personal income. So, that \$200 expense for reserve duty every month means a lot to the Montana reservist. Yet, they continue selflessly to provide their services to our country at their own expense. For those reservists who travel out of state for their training, this expense is even higher.

This proposal would provide an above the line deduction for overnight travel costs and would be available for all reservists and members of the National Guard.

**Expansion of Membership For Veterans= Organizations.** Currently, qualified veterans' organizations under section 501(c)(19) of the tax code both tax-exempt and contributions to the organization are tax-deductible.

In order to qualify under 501(c)(19), the organization must meet several tests, including 75% of the members must be current or former military, and substantially all of the other members must be either spouses, widows, or widowers of current or former military.

The proposal would permit lineal descendants and ancestors to qualify for the "substantially all" test.

It is important that our veterans' organizations continue the good work that they do. But, as the organizations age, they are in danger of losing their tax-exempt status. This bill helps ensure the vitality of these organizations.

**Clarification of Treatment of Child Care Subsidies.** I want to ensure that parents in the military can continue their dedicated service once they enter parenthood, with the knowledge that their children are being well taken care of.

The military provides extensive childcare benefits to its employees. Employees at DoD-owned facilities provide childcare services while other areas with non-DoD owned facilities contract out their childcare.

When Congress passed the Tax Reform Act of 1986, we included a provision stating that qualified military benefits are excluded from income. It is not absolutely clear whether childcare provisions are covered under this provision.

The proposal would clarify that any childcare benefit provided to military personnel would be excludible from income.

**Service Academy Appointments Treated as Section 529 Scholarships.** This bill permits penalty-free withdrawals from Coverdell education savings accounts and qualified tuition programs made on account of the attendance of the account holder or beneficiary at any of the Service Academies. The amount of the funds that can be withdrawn penalty-free is limited to the costs of advanced education in that calendar year.

**Suspension of Tax-Exempt Status of Terrorist Organizations.** Under current law there is no procedure for the IRS to suspend the tax-exempt status of an organization.

This proposal would suspend the tax-exempt status of an organization for any period during which the organization is designated or identified- by Executive Order- as a terrorist organization.

**Tax Relief for Families of Space Shuttle Columbia Heroes.** Current law provides for income tax, estate tax and death benefit relief to soldiers who are killed in a combat zone, victims of the September 11<sup>th</sup> attacks, the Oklahoma City bombing victims, and the victims of the anthrax attacks.

The crew of the Space Shuttle Columbia was heroic in every sense of the word. We have a duty to those who lost their lives for the advancement of science and increasing our knowledge of the world we live in. This legislation makes all of the above benefits available to the families of the Columbia crew.

**Revenue Offsets.** In addition, this bill includes three revenue offsets. First, we improve the collection of unpaid taxes from people who have renounced their American citizenship in order to avoid U.S. taxes.

Second, we extend certain IRS user fees.

Third, we restore the ability of the IRS to permit partial-pay installment agreements with taxpayers.

The Military bill passed by the Senate Finance Committee fixes some of the inequities in our tax code and, more importantly, acknowledges the men and women who are making sacrifices and risking their lives to defend us all.

I thank all of the members who have contributed to the development of the bill.  
Senators Levin and Warner of the Armed Services Committee.  
Senator Landrieu for the childcare provision.  
Senator Johnson for the contingency operation provision.  
Senator Dewine for the above-the-line deduction.  
Senator Harkin for the Veterans and Expatriation provisions.

I especially thank the Chairman of the Finance Committee, Senator Grassley, who has once again been a partner in the development of important bipartisan tax legislation.

Mr. President, it is important that we continue to show members of the armed forces our support and solidarity during this time of conflict. The War on Terrorism and the conflict with Iraq have brought to light the essential role the armed services play in upholding freedom throughout the world.

I hope to see this military tax equity bill passed by the Senate today, and signed into law by the President swiftly.

Thank you.

I yield the floor.